

WITHAM HEALTH SERVICES

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Witham Health Services
Lebanon, Indiana

We have audited the accompanying combined balance sheets of Witham Health Services (Hospital) as of December 31, 2007 and 2006 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the combined financial statements, Witham Health Services Foundation, Inc., a discrete component unit of the Hospital, changed its policy for financial reporting from the modified cash basis of accounting to the accrual basis of accounting.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2007 and 2006 and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Witham Health Services
Lebanon, Indiana

Management's discussion and analysis as listed in the accompanying table of contents is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purposes of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

Blue & Co., LLC

June 6, 2008

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2007 AND 2006

This section of Witham Health Services' (the Hospital) annual combined financial statements presents background information and management's discussion and analysis of the Hospital's combined financial performance during the year ended December 31, 2007. Please read it in conjunction with the Hospital's combined financial statements that follow this MD&A.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased approximately \$8,631,000 or 23% in 2007.
- The Hospital reported an operating income in excess of \$9,164,000 for the year 2007, representing an increase of approximately \$1,479,000 in comparison to the year 2006 results.
- Total operating revenue increased by \$9,679,000 in 2007 compared to 2006.

USING THIS ANNUAL REPORT

The Hospital's combined financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the combined activities and the financial position of the Hospital.

The combined balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities).

All of the current year's revenue earned and expenses incurred are accounted for in the combined statement of revenues, expenses and changes in net assets.

Finally, the combined statement of cash flows' purpose is to provide information about the Hospital's cash flows from operating activities, financing activities including capital additions, and investing activities. This statement provides information on the sources and uses of cash and what was the change in cash balance during the year.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2007 AND 2006

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the combined balance sheet. The Hospital's net assets increased by \$8,631,000 in 2007 compared to 2006.

Assets, Liabilities, and Net Assets

	2007	2006
ASSETS		
Current assets	\$ 37,115,179	\$ 32,718,817
Assets whose use is limited	5,364,441	5,385,018
Capital assets, net	50,469,247	45,970,021
Other assets	1,112,062	1,025,538
Total assets	<u>\$ 94,060,929</u>	<u>\$ 85,099,394</u>
LIABILITIES		
Current liabilities	\$ 9,011,696	\$ 7,359,399
Long-term debt	39,656,949	40,978,605
Total liabilities	<u>48,668,645</u>	<u>48,338,004</u>
NET ASSETS		
Invested in capital assets, net of related debt	9,469,595	3,677,790
Restricted		
Trustee held for debt service and capital	5,224,345	5,062,720
Internally designated for capital improvements	538,852	756,593
Temporarily restricted	1,694,301	1,640,160
Total restricted	<u>7,457,498</u>	<u>7,459,473</u>
Unrestricted	28,465,191	25,624,127
Total net assets	<u>45,392,284</u>	<u>36,761,390</u>
Total liabilities and net assets	<u>\$ 94,060,929</u>	<u>\$ 85,099,394</u>

Components of the change in the Hospital's assets included the increase in current assets related to patient accounts receivable and investments. Capital assets increased property additions outpaced depreciation expense in 2007.

Long-term debt decreased approximately \$1,322,000 compared to 2007 due to required principal payments.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2007 AND 2006

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2007, the Hospital's net assets increased by \$8,631,000, as shown below. This increase is made up of different components, which will be discussed in the following paragraphs.

Operating Results and Changes in Net Assets

	2007	2006
Revenues		
Net patient service revenue	\$ 63,361,546	\$ 54,274,803
Other operating revenue	4,226,500	3,633,783
Total revenues	67,588,046	57,908,586
Expenses		
Salaries and benefits	32,163,779	27,650,189
Supplies	8,484,458	6,445,013
Depreciation and amortization	3,058,944	2,722,716
Other operating expenses	14,716,584	13,405,087
Total expenses	58,423,765	50,223,005
Operating income	9,164,281	7,685,581
Non-operating expenses, net	(533,387)	(544,523)
Change in net assets	8,630,894	7,141,058
Net assets beginning of year	36,761,390	29,620,332
Net assets end of year	<u>\$ 45,392,284</u>	<u>\$ 36,761,390</u>

OPERATING INCOME

The main component of the overall change in the Hospital's net assets is its operating income. In 2006, the Hospital reported an operating income of \$7,686,000. However, in 2007 the Hospital reported an operating income of \$9,164,000, which is a \$1,479,000 increase from 2006. The primary reason for the increase in operating income was an increase of \$9,679,000 in operating revenue offset by an increase of \$8,201,000 in operating expenses. Salary and benefit expense contributed most significantly to the operating expense increase.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2007 AND 2006

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of investment income, interest expense and Foundation revenue and expenses. The nonoperating items went from a net expense of \$545,000 in 2006 to a net expense of \$533,000 in 2007.

SOURCES OF REVENUE

During 2007, the Hospital derived substantially all of its revenue from patient service and other related activities. A significant portion of the patient service revenue is from patients that are insured by government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Revenues from the Medicare and Medicaid programs represented 52% of the Hospital's gross revenues in 2007 and 2006.

Following is a table of major sources of gross patient revenues for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Medicare	40%	41%
Medicaid	12%	11%
Commercial	43%	43%
Self Pay	5%	5%
	<u>100%</u>	<u>100%</u>

CAPITAL ASSETS

At the end of 2007, the Hospital had \$50,469,000 invested in capital assets, net of accumulated depreciation, as detailed below.

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 3,840,697	\$ 2,267,214
Buildings and improvements	41,684,304	41,543,691
Equipment	22,493,135	19,659,033
Construction in progress	3,955,805	1,019,815
Total property and equipment	71,973,941	64,489,753
Less accumulated depreciation	21,504,694	18,519,732
Capital assets, net	<u>\$ 50,469,247</u>	<u>\$ 45,970,021</u>

Capital assets increased by \$4,499,000 compared to 2006.

WITHAM HEALTH SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) DECEMBER 31, 2007 AND 2006

DEBT

The Hospital's debt consists of loans payable as well as the 2005 Revenue bonds. More detailed information about the Hospital's long term debt is presented in the notes to the combined financial statements.

ECONOMIC OUTLOOK

Management believes that the growing number of uninsured and under insured patients as well as the payment shortfalls for Medicare and Medicaid, worker shortages, regulatory burdens, rapidly rising costs and decreased access to capital are the challenges we are going to face in the future. These challenges will continue to put a burden on the Hospital's operating margins. The pressure facing the Hospital is to manage costs while keeping rates at a reasonable level and quality at a high standard.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Controller's Office, at PO Box 1200, Lebanon, IN, 46052.

WITHAM HEALTH SERVICES

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

	ASSETS				
	2007			2006	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current assets					
Cash and cash equivalents	\$ 11,261,769	\$ 2,027,156	\$ -0-	\$ 13,288,925	\$ 8,383,451
Investments	9,350,768	135,880	-0-	9,486,648	12,911,019
Patient accounts receivable, less allowance for uncollectible accounts of \$3,142,000 in 2007 and \$3,086,000 in 2006	7,996,884	-0-	-0-	7,996,884	8,021,097
Other receivables	782,862	187,043	-0-	969,905	728,487
Estimated third-party settlements	3,026,581	-0-	-0-	3,026,581	780,554
Inventory and other current assets	1,172,928	23,308	-0-	1,196,236	784,209
Current portion of assets whose use is limited	1,150,000	-0-	-0-	1,150,000	1,110,000
Total current assets	34,741,792	2,373,387	-0-	37,115,179	32,718,817
Assets whose use is limited					
Held by trustee for debt service and capital	5,224,345	-0-	-0-	5,224,345	5,062,720
Designated for capital improvements	538,852	751,244	-0-	1,290,096	1,432,298
Total assets whose use is limited	5,763,197	751,244	-0-	6,514,441	6,495,018
Less current portion	1,150,000	-0-	-0-	1,150,000	1,110,000
Noncurrent assets whose use is limited	4,613,197	751,244	-0-	5,364,441	5,385,018
Capital assets					
Land and improvements	3,840,697	-0-	-0-	3,840,697	2,267,214
Construction in progress	3,955,805	-0-	-0-	3,955,805	1,019,815
Depreciable capital assets	64,177,439	-0-	-0-	64,177,439	61,202,724
	71,973,941	-0-	-0-	71,973,941	64,489,753
Less accumulated depreciation	21,504,694	-0-	-0-	21,504,694	18,519,732
Capital assets, net	50,469,247	-0-	-0-	50,469,247	45,970,021
Other assets					
Investment in affiliates	258,416	-0-	-0-	258,416	357,034
Bond issue costs, net of accumulated amortization of \$55,000 in 2007 and \$33,000 in 2006	437,048	-0-	-0-	437,048	459,270
Other	416,598	-0-	-0-	416,598	209,234
Total other assets	1,112,062	-0-	-0-	1,112,062	1,025,538
Total assets	<u>\$ 90,936,298</u>	<u>\$ 3,124,631</u>	<u>\$ -0-</u>	<u>\$ 94,060,929</u>	<u>\$ 85,099,394</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007			2006	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Current liabilities					
Accounts payable	\$ 2,458,123	\$ 1,691	\$ -0-	\$ 2,459,814	\$ 1,072,579
Accrued salaries and related liabilities	2,146,273	-0-	-0-	2,146,273	2,294,828
Accrued expenses and other current liabilities	3,062,906	-0-	-0-	3,062,906	2,678,366
Current portion of long term debt					
Loans payable	192,703	-0-	-0-	192,703	203,626
Revenue bonds payable	1,150,000	-0-	-0-	1,150,000	1,110,000
Total current liabilities	9,010,005	1,691	-0-	9,011,696	7,359,399
Long term debt, net of current portion					
Loans payable	2,630,039	-0-	-0-	2,630,039	2,830,565
Revenue bonds payable	37,026,910	-0-	-0-	37,026,910	38,148,040
Total long term debt	39,656,949	-0-	-0-	39,656,949	40,978,605
Total liabilities	48,666,954	1,691	-0-	48,668,645	48,338,004
Net assets					
Invested in capital assets, net of related debt	9,469,595	-0-	-0-	9,469,595	3,677,790
Restricted					
Trustee held for debt service and capital	5,224,345	-0-	-0-	5,224,345	5,062,720
Internally designated for capital improvements	538,852	-0-	-0-	538,852	756,593
Temporarily restricted	-0-	1,694,301	-0-	1,694,301	1,640,160
Total restricted	5,763,197	1,694,301	-0-	7,457,498	7,459,473
Unrestricted	27,036,552	1,428,639	-0-	28,465,191	25,624,127
Total net assets	42,269,344	3,122,940	-0-	45,392,284	36,761,390
Total liabilities and net assets	<u>\$ 90,936,298</u>	<u>\$ 3,124,631</u>	<u>\$ -0-</u>	<u>\$ 94,060,929</u>	<u>\$ 85,099,394</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Revenue					
Net patient service revenue	\$ 63,361,546	\$ -0-	\$ -0-	\$ 63,361,546	\$ 54,274,803
Other operating revenue	4,226,500	-0-	-0-	4,226,500	3,633,783
Total operating revenue	67,588,046	-0-	-0-	67,588,046	57,908,586
Operating expenses					
Salaries and wages	24,828,984	-0-	-0-	24,828,984	22,088,312
Employee benefits	7,334,795	-0-	-0-	7,334,795	5,561,877
Professional medical fees	4,134,175	-0-	-0-	4,134,175	3,308,729
Purchased services	3,017,969	-0-	-0-	3,017,969	2,653,601
Supplies	8,484,458	-0-	-0-	8,484,458	6,445,013
Repairs and maintenance	1,464,216	-0-	-0-	1,464,216	1,733,475
Equipment rental	2,443,339	-0-	-0-	2,443,339	2,367,293
Utilities	957,909	-0-	-0-	957,909	1,016,211
Depreciation and amortization	3,058,944	-0-	-0-	3,058,944	2,722,716
Insurance	701,700	-0-	-0-	701,700	575,688
Other expenses	1,997,276	-0-	-0-	1,997,276	1,750,090
Total operating expenses	58,423,765	-0-	-0-	58,423,765	50,223,005
Operating income	9,164,281	-0-	-0-	9,164,281	7,685,581
Nonoperating revenue (expense)					
Investment income	1,357,688	131,102	(1,935)	1,486,855	1,045,792
Interest expense	(2,335,432)	-0-	1,935	(2,333,497)	(2,410,915)
Foundation revenue	-0-	244,104	-0-	244,104	222,917
Foundation expense	-0-	(150,363)	-0-	(150,363)	(155,866)
Gain on investment in affiliates	79,525	-0-	-0-	79,525	285,353
Other nonoperating revenue	139,989	-0-	-0-	139,989	468,196
Total nonoperating revenue (expense), net	(758,230)	224,843	-0-	(533,387)	(544,523)
Change in net assets	8,406,051	224,843	-0-	8,630,894	7,141,058
Net assets					
Beginning of year	33,863,293	2,898,097	-0-	36,761,390	29,620,332
End of year	\$ 42,269,344	\$ 3,122,940	\$ -0-	\$ 45,392,284	\$ 36,761,390

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Operating activities					
Cash received from patient services	\$ 61,139,732	\$ -0-	\$ -0-	\$ 61,139,732	\$ 51,125,415
Cash paid for salaries, wages and benefits	(32,312,334)	-0-	-0-	(32,312,334)	(27,102,635)
Cash paid to vendors and suppliers	(22,140,957)	-0-	-0-	(22,140,957)	(19,769,013)
Other receipts, net	4,226,500	228,254	-0-	4,454,754	3,883,733
Net cash flows from operating activities	10,912,941	228,254	-0-	11,141,195	8,137,500
Capital and related financing activities					
Acquisition and construction of capital assets	(6,964,690)	-0-	-0-	(6,964,690)	(2,779,256)
Interest on long-term debt	(2,335,432)	-0-	1,935	(2,333,497)	(2,410,915)
Principal payments for long-term debt	(1,313,616)	-0-	-0-	(1,313,616)	(1,369,065)
Net cash flows from capital and related financing activities	(10,613,738)	-0-	1,935	(10,611,803)	(6,559,236)
Investing activities					
Investment income	1,357,688	129,167	(1,935)	1,484,920	1,025,418
Change in Investment in affiliated companies	98,618	-0-	-0-	98,618	(51,221)
Other changes in investments and assets whose use is limited	2,853,195	(77,051)	-0-	2,776,144	(3,536,716)
Net cash flows from investing activities	4,309,501	52,116	(1,935)	4,359,682	(2,562,519)
Net change in cash and cash equivalents	4,608,704	280,370	-0-	4,889,074	(984,255)
Cash and cash equivalents					
Beginning of year	13,307,211	1,746,786	-0-	15,053,997	16,038,252
End of year	<u>\$ 17,915,915</u>	<u>\$ 2,027,156</u>	<u>\$ -0-</u>	<u>\$ 19,943,071</u>	<u>\$ 15,053,997</u>
Reconciliation of cash and cash equivalents to the combined balance sheets					
Cash and cash equivalents					
In current assets	\$ 11,261,769	\$ 2,027,156	\$ -0-	\$ 13,288,925	\$ 8,383,451
In investments	890,949	-0-	-0-	890,949	851,233
In assets whose use is limited - held by trustee	5,224,345	-0-	-0-	5,224,345	5,062,720
In assets whose use is limited - designated	538,852	-0-	-0-	538,852	756,593
Total cash and cash equivalents	<u>\$ 17,915,915</u>	<u>\$ 2,027,156</u>	<u>\$ -0-</u>	<u>\$ 19,943,071</u>	<u>\$ 15,053,997</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006	
	Total Hospital	Foundation	Eliminations	Total reporting entity	Total reporting entity
Reconciliation of operating income to net cash flows from operating activities					
Operating income	\$ 9,164,281	\$ -0-	\$ -0-	\$ 9,164,281	\$ 7,685,581
Adjustment to reconcile operating income to net cash flows from operating activities					
Depreciation and amortization	3,058,944	-0-	-0-	3,058,944	2,722,716
Bad debts	6,429,648	-0-	-0-	6,429,648	5,898,378
Changes in operating assets and liabilities					
Patient accounts receivable	(6,405,435)	-0-	-0-	(6,405,435)	(7,245,972)
Other receivables	276,086	226,563	-0-	502,649	180,009
Inventory and other current assets	(388,719)	-0-	-0-	(388,719)	(117,055)
Accounts payable	788,178	1,691	-0-	789,869	192,737
Accrued salaries and related liabilities	(148,555)	-0-	-0-	(148,555)	547,554
Accrued expenses and other current liabilities	384,540	-0-	-0-	384,540	75,346
Estimated third-party settlements	(2,246,027)	-0-	-0-	(2,246,027)	(1,801,794)
Net cash flows from operating activities	<u>\$ 10,912,941</u>	<u>\$ 228,254</u>	<u>\$ -0-</u>	<u>\$ 11,141,195</u>	<u>\$ 8,137,500</u>

See accompanying notes to combined financial statements.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Witham Health Services (Hospital) is a county owned facility operating under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care. The Board of County Commissioners of Boone County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Boone County.

In 2000, the Board of County Commissioners of Boone County, upon written request of the Hospital Board of Trustees, created the Witham Memorial Hospital Association. The Association was created pursuant to the provisions of the Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

For financial reporting purposes, the Hospital's reporting entity consists of the primary government and component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government.

Blended Component Units

Blended component units, although legally separate entities are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. The Hospital appoints a voting majority of the Medical Office Properties, LLC (MOP, LLC) and Creekside OB/GYN, Inc. (Creekside) boards and is able to impose its will and a financial benefit/burden relationship exists between the Hospital and MOP, LLC and Creekside. Although they are legally separate from the Hospital, MOP, LLC and Creekside are reported as if they were part of the Hospital because the boards are substantively the same and they provide services entirely or almost entirely to the Hospital. All significant transactions between the Hospital and MOP, LLC and Creekside have been eliminated for financial reporting purposes.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Discrete Component Units

Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Witham Health Services Foundation, Inc. (Foundation) is considered a discrete component unit for reporting purposes. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments available for operating purposes with original maturity dates of 90 days or less. The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at fair value.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or an United States Government Agency.

Mutual funds are reported at fair value based on the fund's market price. Money market investments that mature within one year or less at the date of their acquisition are reported at fair value. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating income in the combined statements of revenues, expense and changes in net assets.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2005 with differences reflected as deductions from revenue in 2007. Amounts for unresolved cost reports for 2006 through 2007 are reflected in estimated third-party settlements on the combined balance sheets. During 2007 and 2006, the Hospital recognized the differences between original estimates and subsequent revisions for the final settlement of cost reports in its combined statements of revenues, expenses and changes in net assets.

Management estimates an allowance for uncollectible patient accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Grants and Contributions

From time to time, the reporting entity receives contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all requirements are met. Grants may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Whose Use is Limited

Assets whose use is limited are stated at fair value in the combined financial statements. These assets include investments designated by the Hospital Board for internal purposes and investments held by trustees for debt service and capital improvements. These investments consist primarily of cash and cash equivalents, certificates of deposit, United States government securities and mutual funds. Investment interest, dividends, gains and losses, both realized and unrealized are included in nonoperating revenues (expenses) in the combined statements of revenues, expenses and changes in net assets.

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$500 and which meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred.

The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The range of useful lives in computing depreciation is as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 to 20 years
Buildings and fixed equipment	10 to 40 years
Fixed equipment	10 to 40 years
Major moveable equipment	3 to 15 years
Minor equipment	3 to 15 years

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are expendable noncapital net assets that must be used for a particular purpose, as specified by creditors or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted assets.

Combined Statements of Revenues, Expenses and Changes in Net Assets

The Hospital's combined statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions such as investment activities are reported as nonoperating gains or losses.

Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash and cash equivalents include all demand deposits and investments in highly liquid debt instruments with an original maturity date of three months. Additional cash flows information is as follows:

	<u>2007</u>	<u>2006</u>
Supplemental cash flows information		
Cash paid for interest	\$ 2,167,953	\$ 2,236,298
Property and equipment in payables	\$ 597,366	\$ 324,866

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Bond Issue Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issue costs were \$437,000 and \$459,000 as of December 31, 2007 and 2006, respectively. Issue costs are amortized utilizing the straight-line method. Accumulated amortization as of December 31, 2007 and 2006 was \$55,557 and \$33,334, respectively. Bond issue costs are recorded in other assets on the combined balance sheets.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value.

The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. As of December 31, 2007 and 2006, the carrying value of the Hospital's long-term debt approximated its fair value.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3).

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service under separate policies for sick, vacation and personal leaves. The estimated amount of unused time off is reported as a liability in the combined financial statements.

Advertising

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expense was \$1,331,384 and \$1,151,850 for 2007 and 2006, respectively.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Reclassifications

Certain amounts from the 2006 combined financial statements have been reclassified to conform to the current year presentation.

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Effective July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC., to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$1,000,000 each occurrence, \$1,000,000 fire legal liability, \$1,000,000 personal and advertising injury, and a \$3,000,000 total policy aggregate.

Physician Guarantees

In November 2005, the FASB issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It served as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies. FIN 45 is effective for new minimum revenue guarantees issued or modified on or after January 1, 2006.

The Hospital adopted this amendment to FIN 45 effective January 1, 2006. For periods ending before January 1, 2006, the Hospital did not report the fair value of its obligations under physician revenue guarantee agreements. However, under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically three years. As of December 31, 2007 and 2006, the Hospital had not entered or modified physician revenue guarantee agreements on or after January 1, 2006; accordingly, the adoption of this amendment had no effect on the accompanying financial statements.

2. CHANGE IN ACCOUNTING BASIS

During 2007, the Foundation changed its policy for preparation of its financial statements from the modified cash basis of accounting to the accrual basis of accounting. The modified cash basis is an "other comprehensive basis of accounting" method. The accrual basis of accounting is in conformity with generally accepted accounting principles in the United States of America.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The following is the restatement of net assets as of January 1, 2006:

	Total Hospital	Foundation	Total reporting entity
Net assets			
As previously reported, January 1, 2006	\$ 26,910,471	\$ 2,402,471	\$ 29,312,942
Effect of change in accounting basis	-0-	307,390	307,390
Restated, January 1, 2006	<u>\$ 26,910,471</u>	<u>\$ 2,709,861</u>	<u>\$ 29,620,332</u>

The effect of the change in accounting basis decreased the Foundation's total change in net assets in 2007 and 2006 by \$34,668 and \$85,679, respectively.

3. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

Medicare inpatient services are reimbursed based on a predetermined amount for each case based on the diagnosis associated with the patient (Prospective Payment Hospital). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Prospective Payment Hospital and the appropriateness of patient admissions are subject to validation reviews by the Medicare peer review organization which is under contract with the Hospital to perform such reviews. Medicare outpatient services are primarily reimbursed on predetermined rates based on the services provided.

Medicaid

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

The Hospital is eligible for the Indiana Medicaid Supplemental programs including Medicaid Disproportionate Share Hospital and Municipal Upper Payment Limit programs. The Hospital recognized reimbursement from these programs within net patient revenue of approximately \$4,954,000 and \$2,494,000 during 2007 and 2006, respectively. These programs are Federal programs administered by the State of Indiana.

Other Payors

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The following is a summary of net patient service revenue for 2007 and 2006:

	2007	2006
Inpatient routine services	\$ 9,586,651	\$ 7,883,941
Inpatient ancillary services	22,972,171	19,755,947
Outpatient ancillary services	108,271,545	87,242,006
Gross patient service revenue	140,830,367	114,881,894
Contractual allowances	69,617,893	53,836,439
Charity care	1,421,280	872,274
Bad debts	6,429,648	5,898,378
Deductions from revenue	77,468,821	60,607,091
Net patient service revenue	<u>\$ 63,361,546</u>	<u>\$ 54,274,803</u>

4. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of services and supplies furnished under its charity care policy. The charity care provided during 2007 and 2006 was \$1,421,280 and \$872,274, respectively.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

5. INVESTMENTS

Investments are recorded at fair value and consist of the following as of December 31:

	2007	2006
Cash and cash equivalents	\$ 890,949	\$ 851,233
Certificates of deposit	135,880	125,139
US Government securities	8,459,819	11,934,647
	<u>\$ 9,486,648</u>	<u>\$ 12,911,019</u>

6. ASSETS WHOSE USE IS LIMITED

Held by Trustee – Hospital Association funds deposited with a trustee and limited to use in accordance with the requirements of a trust indenture and funds from long-term debt borrowings to be expended and for capital improvements.

Designated for Capital Improvements – Amounts designed for capital improvements.

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited includes the following as of December 31:

	2007	2006
Held by trustee for debt service and capital		
Cash and cash equivalents	\$ 5,224,345	\$ 5,062,720
Designated for capital improvements		
Cash and cash equivalents	538,852	756,593
Mutual funds	452,596	425,670
Corporate equity securities (held by Foundation)	11,230	9,742
Corporate debt securities (held by Foundation)	287,418	240,293
Total designated for capital improvements	<u>1,290,096</u>	<u>1,432,298</u>
Total assets whose use is limited	<u>\$ 6,514,441</u>	<u>\$ 6,495,018</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

7. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depositary Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents and US Government securities. Market value approximated cost as of December 31, 2007 and 2006.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital:

December 31, 2007

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 8,459,819	\$ 2,969,056	\$ 5,490,763	\$ -0-	\$ -0-
Certificates of deposit	135,880	135,880	-0-	-0-	-0-
Mutual funds	452,596	452,596	-0-	-0-	-0-
Corporate equity securities	11,230	11,230	-0-	-0-	-0-
Corporate debt	287,418	287,418	-0-	-0-	-0-
	<u>\$ 9,346,943</u>	<u>\$ 3,856,180</u>	<u>\$ 5,490,763</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2006

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government securities	\$ 11,934,647	\$ 2,481,898	\$ 9,452,749	\$ -0-	\$ -0-
Certificates of deposit	125,139	125,139	-0-	-0-	-0-
Mutual funds	425,670	425,670	-0-	-0-	-0-
Corporate equity securities	9,742	9,742	-0-	-0-	-0-
Corporate debt	240,293	240,293	-0-	-0-	-0-
	<u>\$ 12,735,491</u>	<u>\$ 3,282,742</u>	<u>\$ 9,452,749</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by US Government or US Government Agency obligations.

Concentration of credit risk – The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

Deposits and investments consist of the following as of December 31:

	<u>2007</u>	<u>2006</u>
Carrying amount		
Deposits	\$ 19,943,071	\$ 15,053,997
Investments	<u>9,346,943</u>	<u>12,735,491</u>
	<u>\$ 29,290,014</u>	<u>\$ 27,789,488</u>
Included in the balance sheets		
Cash and cash equivalents	\$ 13,288,925	\$ 8,383,451
Investments	9,486,648	12,911,019
Held by trustee	5,224,345	5,062,720
Designated	<u>1,290,096</u>	<u>1,432,298</u>
	<u>\$ 29,290,014</u>	<u>\$ 27,789,488</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

8. CAPITAL ASSETS

Capital Assets, Net

A summary of property and equipment, including assets under capital leases for 2007 and 2006 follow:

	December 31 2006	Additions	Retirements & Transfers	December 31 2007
Land and improvements	\$ 2,267,214	\$ 1,400,233	\$ 173,250	\$ 3,840,697
Buildings and improvements	41,543,691	135,749	4,864	41,684,304
Equipment	19,659,033	2,250,027	584,075	22,493,135
Construction in progress	1,019,815	3,776,047	(840,057)	3,955,805
Total capital assets	64,489,753	7,562,056	(77,868)	71,973,941
Less accumulated depreciation				
Land improvements	545,108	54,705	-0-	599,813
Buildings and improvements	5,879,525	1,098,796	-0-	6,978,321
Equipment	12,095,099	1,905,443	(73,982)	13,926,560
Total accumulated depreciation	18,519,732	3,058,944	(73,982)	21,504,694
Capital assets, net	<u>\$ 45,970,021</u>	<u>\$ 4,503,112</u>	<u>\$ (3,886)</u>	<u>\$ 50,469,247</u>

	December 31 2005	Additions	Retirements & Transfers	December 31 2006
Land	\$ 2,190,575	\$ 76,639	\$ -0-	\$ 2,267,214
Buildings and improvements	41,154,772	347,907	41,012	41,543,691
Equipment	17,496,319	2,161,917	797	19,659,033
Construction in progress	922,086	517,659	(419,930)	1,019,815
Total capital assets	61,763,752	3,104,122	(378,121)	64,489,753
Less accumulated depreciation				
Land improvements	501,231	43,877	-0-	545,108
Buildings and improvements	4,610,359	1,269,166	-0-	5,879,525
Equipment	10,877,409	1,409,673	(191,983)	12,095,099
Total accumulated depreciation	15,988,999	2,722,716	(191,983)	18,519,732
Capital assets, net	<u>\$ 45,774,753</u>	<u>\$ 381,406</u>	<u>\$ (186,138)</u>	<u>\$ 45,970,021</u>

Depreciation and amortization expense for 2007 and 2006 was \$3,058,944 and \$2,722,716, respectively.

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

9. LONG TERM DEBT

A summary of long term debt as of December 31, 2007 is as follows:

- 2005 Revenue bonds; with annual principal payments ranging from \$1,060,000 to \$2,995,000, plus fixed interest ranging from 3.5% to 5.5% due in 2027 secured by assets and revenues of the Hospital.
- Loans payable with local financial institutions, due in monthly installments through 2010 at variable interest rates ranging from 5% to 6%, due through 2010, secured by real property.

Certain long-term debt agreements require the Hospital to maintain certain financial ratios. As of December 31, 2007, the Hospital believed it was in compliance with the ratios.

A portion of the 2005 bond issue was used to retire a previous bond issue. The defeasance of the previous bonds resulted in a loss of approximately \$3,400,000 in 2005, which is amortized through 2026 as a component of interest expense.

The following represents a progression for long term debt for 2007 and 2006:

	December 31 2006	Additional Borrowings	Payments	December 31 2007	Current Portion
2005 Revenue bonds	\$ 39,610,000	\$ -0-	\$ 1,110,000	\$ 38,500,000	\$ 1,150,000
Loans payable	3,034,190	-0-	203,616	2,830,574	192,703
	<u>42,644,190</u>	<u>\$ -0-</u>	<u>\$ 1,313,616</u>	<u>41,330,574</u>	<u>\$ 1,342,703</u>
Unamortized loss on bond defeasance	(3,126,625)			(2,971,329)	
Unamortized bond premium	2,774,666			2,640,407	
	<u>\$ 42,292,231</u>			<u>\$ 40,999,652</u>	
	December 31 2005	Additional Borrowings	Payments	December 31 2006	Current Portion
2005 Revenue bonds	\$ 40,670,000		\$ 1,060,000	\$ 39,610,000	\$ 1,110,000
Loans payable	3,343,255	-0-	309,065	3,034,190	203,626
	<u>44,013,255</u>	<u>\$ -0-</u>	<u>\$ 1,369,065</u>	<u>42,644,190</u>	<u>\$ 1,313,626</u>
Unamortized loss on bond defeasance	(3,289,753)			(3,126,625)	
Unamortized bond premium	2,908,923			2,774,666	
	<u>\$ 43,632,425</u>			<u>\$ 42,292,231</u>	

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Scheduled principal and interest repayments on long term debt and payments on loans payable for the years succeeding December 31, 2007 are as follows:

Year Ending December 31,	Principal	Interest	Total
2008	\$ 1,342,703	\$ 2,100,885	\$ 3,443,588
2009	3,816,685	2,049,119	5,865,804
2010	1,251,186	1,862,277	3,113,463
2011	1,305,000	1,795,363	3,100,363
2012	1,380,000	1,722,625	3,102,625
2013-2017	8,120,000	7,385,231	15,505,231
2018-2022	10,535,000	4,974,113	15,509,113
2023-2027	13,580,000	1,923,131	15,503,131
	<u>\$ 41,330,574</u>	<u>\$ 23,812,744</u>	<u>\$ 65,143,318</u>

10. OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operating expenses as incurred. Total rent expense for 2007 and 2006 was \$2,443,339 and \$2,367,293, respectively. The following is a schedule of future minimum lease payments for leases expiring through 2011 for the years succeeding December 31, 2007:

Year Ending December 31,	
2008	\$ 547,032
2009	90,618
2010	23,713
2011	540
	<u>\$ 661,903</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

11. PENSION PLAN

Plan Description

The Hospital has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report is available by contacting the Hospital's accounting department.

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. There are two parts to the Plan, the Money Purchase Base Contribution and the Matching Contribution. Plan members are not required to contribute to the Money Purchase Base Contribution portion of the Plan. The Hospital contributes either 2% or 3% based on the number of years of service for this portion of the Plan. Plan members may contribute to the Matching Contribution portion of the Plan up to the maximum allowed by the Internal Revenue Service. The Hospital matches up to either 3% or 4% of the employee's annual salary based on years of service and employee contributions. Pension expense was \$897,436 and \$815,402 for 2007 and 2006, respectively.

12. CONCENTRATION OF CREDIT RISK

The Hospital is located in Lebanon, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	33%	30%
Medicaid	10%	9%
Commercial	34%	37%
Self-Pay and other	23%	24%
	<u>100%</u>	<u>100%</u>

WITHAM HEALTH SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

13. INVESTMENTS IN AFFILIATED COMPANIES

Witham St. Vincent Cancer Institute, LLC

The Hospital has a 33 1/3% equity interest in Witham St. Vincent Cancer Institute, LLC. The investment is recorded on the equity method at \$255,002 and \$283,622 as of December 31, 2007 and 2006, respectively.

Eye Institute, LLC

The Hospital has a 24% equity interest in the Eye Institute, LLC. The investment is recorded on the equity method at \$3,413 and \$3,413 as of December 31, 2007 and 2006, respectively.

Liberty Dialysis Lebanon, LLC

In 2006, the Hospital invested for a 20% equity interest in Liberty Dialysis Lebanon, LLC. The investment is recorded on the equity method at \$-0- and \$70,000 as of December 31, 2007 and 2006.

14. RISK MANAGEMENT

Medical Benefits to Employees and Dependents

The Hospital is self funded for medical and related health benefits provided to employees and their families. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop/loss agreement, the hospital is responsible for the funding of all claims and related administrative costs up to \$135,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self funded health insurance and related expenses were \$3,910,924 and \$2,563,322 in 2007 and 2006, respectively.

SUPPLEMENTARY INFORMATION

WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2007

	ASSETS				
	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Current assets					
Cash and cash equivalents	\$ 11,049,283	\$ 114,524	\$ 97,962	\$ -0-	\$ 11,261,769
Investments	9,350,768	-0-	-0-	-0-	9,350,768
Patient accounts receivable, net	7,912,834	-0-	84,050	-0-	7,996,884
Other receivables	780,836	2,026	-0-	-0-	782,862
Estimated third-party settlements	3,026,581	-0-	-0-	-0-	3,026,581
Inventory and other current assets	1,144,498	5,784	22,646	-0-	1,172,928
Current portion of assets whose use is limited	1,150,000	-0-	-0-	-0-	1,150,000
Total current assets	34,414,800	122,334	204,658	-0-	34,741,792
Assets whose use is limited					
Held by trustee for debt service and capital	5,224,345	-0-	-0-	-0-	5,224,345
Designated for capital improvements	538,852	-0-	-0-	-0-	538,852
Total assets whose use is limited	5,763,197	-0-	-0-	-0-	5,763,197
Less current portion	1,150,000	-0-	-0-	-0-	1,150,000
Noncurrent assets whose use is limited	4,613,197	-0-	-0-	-0-	4,613,197
Capital assets					
Land and improvements	3,840,697	-0-	-0-	-0-	3,840,697
Construction in progress	3,955,805	-0-	-0-	-0-	3,955,805
Depreciable capital assets	59,103,425	4,977,123	96,891	-0-	64,177,439
	66,899,927	4,977,123	96,891	-0-	71,973,941
Less accumulated depreciation	20,362,522	1,087,540	54,632	-0-	21,504,694
Capital assets, net	46,537,405	3,889,583	42,259	-0-	50,469,247
Other assets					
Investment in affiliates	1,421,955	-0-	-0-	(1,163,539)	258,416
Bond issue costs, net	437,048	-0-	-0-	-0-	437,048
Other	577,823	-0-	-0-	(161,225)	416,598
Total other assets	2,436,826	-0-	-0-	(1,324,764)	1,112,062
Total assets	<u>\$ 88,002,228</u>	<u>\$ 4,011,917</u>	<u>\$ 246,917</u>	<u>\$ (1,324,764)</u>	<u>\$ 90,936,298</u>

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2007

LIABILITIES AND NET ASSETS

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Current liabilities					
Accounts payable	\$ 2,424,917	\$ 17,644	\$ 15,562	\$ -0-	\$ 2,458,123
Accrued salaries and related liabilities	2,135,445	-0-	10,828	-0-	2,146,273
Accrued expenses and other current liabilities	2,858,869	204,037	161,225	(161,225)	3,062,906
Current portion of long term debt					
Loans payable	60,811	131,892	-0-	-0-	192,703
Revenue bonds payable	1,150,000	-0-	-0-	-0-	1,150,000
Total current liabilities	8,630,042	353,573	187,615	(161,225)	9,010,005
Long term debt, net of current portion					
Loans payable	75,932	2,554,107	-0-	-0-	2,630,039
Revenue bonds payable	37,026,910	-0-	-0-	-0-	37,026,910
Total long term debt	37,102,842	2,554,107	-0-	-0-	39,656,949
Total liabilities	45,732,884	2,907,680	187,615	(161,225)	48,666,954
Net assets					
Invested in capital assets, net of related debt	8,223,752	1,203,584	42,259	-0-	9,469,595
Restricted					
Trustee held for debt service and capital	5,224,345	-0-	-0-	-0-	5,224,345
Internally designated for capital improvements	538,852	-0-	-0-	-0-	538,852
Total restricted	5,763,197	-0-	-0-	-0-	5,763,197
Unrestricted	28,282,395	(99,347)	17,043	(1,163,539)	27,036,552
Total net assets	42,269,344	1,104,237	59,302	(1,163,539)	42,269,344
Total liabilities and net assets	\$ 88,002,228	\$ 4,011,917	\$ 246,917	\$ (1,324,764)	\$ 90,936,298

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Revenue					
Net patient service revenue	\$ 62,439,170	\$ -0-	\$ 922,376	\$ -0-	\$ 63,361,546
Other operating revenue	4,017,561	733,372	(1,244)	(523,189)	4,226,500
Total operating revenue	66,456,731	733,372	921,132	(523,189)	67,588,046
Operating expenses					
Salaries and wages	24,135,048	33,847	660,089	-0-	24,828,984
Employee benefits	7,245,882	-0-	88,913	-0-	7,334,795
Professional medical fees	4,131,538	-0-	2,637	-0-	4,134,175
Purchased services	3,008,365	-0-	9,604	-0-	3,017,969
Supplies	8,378,692	-0-	105,766	-0-	8,484,458
Repairs and maintenance	1,401,033	61,822	1,361	-0-	1,464,216
Equipment rental	2,337,225	20,484	85,630	-0-	2,443,339
Utilities	833,954	123,955	-0-	-0-	957,909
Depreciation and amortization	2,924,450	128,359	6,135	-0-	3,058,944
Insurance	648,972	7,436	45,292	-0-	701,700
Other expenses	2,483,027	68,825	(31,387)	(523,189)	1,997,276
Total operating expenses	57,528,186	444,728	974,040	(523,189)	58,423,765
Operating income (loss)	8,928,545	288,644	(52,908)	-0-	9,164,281
Nonoperating income (expense)					
Investment income	1,357,668	-0-	20	-0-	1,357,688
Interest expense	(2,148,528)	(186,836)	(68)	-0-	(2,335,432)
Gain/(loss) on investment in affiliates	128,376	-0-	-0-	(48,851)	79,525
Other nonoperating revenue	139,989	-0-	-0-	-0-	139,989
Total nonoperating income (expenses), net	(522,495)	(186,836)	(48)	(48,851)	(758,230)
Change in net assets	8,406,050	101,808	(52,956)	(48,851)	8,406,051
Net assets					
Beginning of year	33,863,294	1,002,429	112,258	(1,114,688)	33,863,293
End of year	\$ 42,269,344	\$ 1,104,237	\$ 59,302	\$ (1,163,539)	\$ 42,269,344

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2006

ASSETS

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Current assets					
Cash and cash equivalents	\$ 6,538,613	\$ 84,938	\$ 13,114	\$ -0-	\$ 6,636,665
Investments	12,785,880	-0-	-0-	-0-	12,785,880
Patient accounts receivable, net	7,923,157	-0-	97,940	-0-	8,021,097
Other receivables	503,658	3,118	-0-	-0-	506,776
Estimated third-party settlements	780,554	-0-	-0-	-0-	780,554
Inventory and other current assets	778,295	5,914	-0-	-0-	784,209
Current portion of assets whose use is limited	1,110,000	-0-	-0-	-0-	1,110,000
Total current assets	30,420,157	93,970	111,054	-0-	30,625,181
Assets whose use is limited					
Held by trustee for debt service and capital	5,062,720	-0-	-0-	-0-	5,062,720
Designated for capital improvements	756,593	-0-	-0-	-0-	756,593
Total assets whose use is limited	5,819,313	-0-	-0-	-0-	5,819,313
Less current portion	1,110,000	-0-	-0-	-0-	1,110,000
Noncurrent assets whose use is limited	4,709,313	-0-	-0-	-0-	4,709,313
Capital assets					
Land and improvements	2,267,214	-0-	-0-	-0-	2,267,214
Construction in progress	1,019,815	-0-	-0-	-0-	1,019,815
Depreciable capital assets	56,139,884	4,972,180	90,660	-0-	61,202,724
	59,426,913	4,972,180	90,660	-0-	64,489,753
Less accumulated depreciation	17,511,937	959,181	48,614	-0-	18,519,732
Capital assets, net	41,914,976	4,012,999	42,046	-0-	45,970,021
Other assets					
Investment in affiliates	1,471,722	-0-	-0-	(1,114,688)	357,034
Bond issue costs, net	459,270	-0-	-0-	-0-	459,270
Other	244,076	-0-	-0-	(34,842)	209,234
Total other assets	2,175,068	-0-	-0-	(1,149,530)	1,025,538
Total assets	<u>\$ 79,219,514</u>	<u>\$ 4,106,969</u>	<u>\$ 153,100</u>	<u>\$ (1,149,530)</u>	<u>\$ 82,330,053</u>

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING BALANCE SHEETS DECEMBER 31, 2006

LIABILITIES AND NET ASSETS

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Current liabilities					
Accounts payable	\$ 1,064,249	\$ 2,330	\$ 6,000	\$ -0-	\$ 1,072,579
Accrued salaries and related liabilities	2,294,828	-0-	-0-	-0-	2,294,828
Accrued expenses and other current liabilities	2,405,507	272,859	34,842	(34,842)	2,678,366
Current portion of long-term debt					
Loans payable	196,853	135,529	-0-	-0-	332,382
Revenue bonds payable	1,110,000	-0-	-0-	-0-	1,110,000
Total current liabilities	7,071,437	410,718	40,842	(34,842)	7,488,155
Long term debt, net of current portion					
Loans payable	136,743	2,693,822	-0-	-0-	2,830,565
Revenue bonds payable	38,148,040	-0-	-0-	-0-	38,148,040
Total long term debt	38,284,783	2,693,822	-0-	-0-	40,978,605
Total liabilities	45,356,220	3,104,540	40,842	(34,842)	48,466,760
Net assets					
Invested in capital assets, net of related debt	2,323,340	1,183,648	42,046	-0-	3,549,034
Restricted					
Trustee held for debt service and capital	5,062,720	-0-	-0-	-0-	5,062,720
Internally designated for capital improvements	756,593	-0-	-0-	-0-	756,593
Total restricted	5,819,313	-0-	-0-	-0-	5,819,313
Unrestricted	25,720,641	(181,219)	70,212	(1,114,688)	24,494,946
Total net assets	33,863,294	1,002,429	112,258	(1,114,688)	33,863,293
Total liabilities and net assets	\$ 79,219,514	\$ 4,106,969	\$ 153,100	\$ (1,149,530)	\$ 82,330,053

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WITHAM HEALTH SERVICES

TOTAL HOSPITAL – COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2006

	Hospital	MOP, LLC	Creekside	Eliminations	Total Hospital
Revenue					
Net patient service revenue	\$ 53,407,411	\$ -0-	\$ 867,392	\$ -0-	\$ 54,274,803
Other operating revenue	3,431,596	734,062	(1,875)	(530,000)	3,633,783
Total operating revenue	56,839,007	734,062	865,517	(530,000)	57,908,586
Operating expenses					
Salaries and wages	21,408,070	27,693	652,549	-0-	22,088,312
Employee benefits	5,487,530	-0-	74,347	-0-	5,561,877
Professional medical fees	3,306,624	-0-	2,105	-0-	3,308,729
Purchased services	2,624,367	-0-	29,234	-0-	2,653,601
Supplies	6,364,611	-0-	80,402	-0-	6,445,013
Repairs and maintenance	1,672,859	57,879	2,737	-0-	1,733,475
Equipment rental	2,240,492	20,484	106,317	-0-	2,367,293
Utilities	898,567	117,644	-0-	-0-	1,016,211
Depreciation and amortization	2,584,865	130,172	7,679	-0-	2,722,716
Insurance	515,794	5,567	54,327	-0-	575,688
Other expenses	2,055,751	192,199	32,140	(530,000)	1,750,090
Total operating expenses	49,159,530	551,638	1,041,837	(530,000)	50,223,005
Operating income (loss)	7,679,477	182,424	(176,320)	-0-	7,685,581
Nonoperating income (expense)					
Investment income	935,930	-0-	107	-0-	936,037
Interest expense	(2,209,798)	(200,615)	(502)	-0-	(2,410,915)
Gain on investment in affiliates	90,448	-0-	-0-	194,905	285,353
Other nonoperating revenue	456,766	-0-	-0-	-0-	456,766
Total nonoperating income (expenses), net	(726,654)	(200,615)	(395)	194,905	(732,759)
Change in net assets	6,952,823	(18,191)	(176,715)	194,905	6,952,822
Net assets					
Beginning of year	26,910,471	1,020,620	288,973	(1,309,593)	26,910,471
End of year	\$ 33,863,294	\$ 1,002,429	\$ 112,258	\$ (1,114,688)	\$ 33,863,293

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